

Sustainability Exclusion Policy

April 2024 | UBS Asset Management

Note: Any required portfolio management-related action based on this policy needs to be implemented within three months of the Publishing Date for portfolios in scope



UBS

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Introduction

Purpose

This policy describes the exclusion approach of UBS Asset Management (“UBS-AM”) and details those company activities which are excluded from the investment universe. Exclusions are applied to certain UBS-AM collective investment schemes (e.g. funds) as outlined in the scope section.



Sustainable Investing

At UBS-AM, sustainability means thinking and acting with the long term in mind. It's an integral part of our business, from the products, and services we offer, to the way we work and operate in society.

Stewardship is a fundamental element of our sustainability strategy. We believe a focused, investment driven approach to stewardship brings benefits to companies, shareholders, and society. As fiduciaries to our clients, we are firmly committed to engaging with selected companies, underlying investments and relevant stakeholders to support investee companies on their transition journey and to foster social progress. As part of our engagement focused on sustainability topics, we set clear objectives and regularly monitor the progress of companies or investments against them. If we believe that insufficient progress is made, we may take steps to exclude these companies from our clients' portfolios in line with their best interests.

There may also be instances where not investing in certain companies with elevated environmental, social or reputational risks outweigh the benefits of remaining invested. This policy lays out where this could occur and how UBS-AM mitigates such risks in its investment process.



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Scope

The table below refers to UBS-AM actively managed fixed income and equity funds as well as rule-based climate aware funds. Please refer to Section 3 exclusion areas for

the definition of the exclusion criteria and applicable thresholds.

Active equity/fixed income and rule-based climate aware funds

Exclusion criteria	ESG integration	Sustainability focus / impact	Rule-based climate aware
Standard Exclusions			
Controversial weapons: cluster munitions, anti-personnel mines, biological weapons, chemical weapons, nuclear weapons	✓	✓	✓
Depleted uranium	✓	✓	✓
Thermal coal mining / extraction	✓	✓	✓
Oil sands-based extraction	✓	✓	✓
Extended Exclusions: Controversial business activities			
Tobacco		✓	
Adult entertainment		✓	
Gambling		✓	
Conventional military weapons		✓	
Thermal coal-based energy production		✓	
Extended Exclusions: Controversial behavior / norms			
UBS AM engagement program failures, incl. climate-related engagements		✓	✓
UN Global Compact compliance failure (w/o credible corrective action)	(✓) ¹	✓	(✓) ²

Exclusions noted under this policy are not applicable to sovereigns and government-related issuers, as well as fixed-maturity funds, index-tracking funds, third-party funds or investments in third-party funds where UBS AM only serves as a sub-advisor or where UBS-AM is not the portfolio manager or the Sponsor of the fund (unless otherwise agreed with the Sponsor), US collective funds managed by UBS Asset Management Trust Company, and other funds or separately managed accounts managed by UBS Realty Investors LLC, UBS Farmland Investors LLC, or UBS Asset Management (Americas) LLC., unless such exclusions are disclosed in the funds' offering documents or clients' investment guidelines. Exclusions noted under this policy are also not applicable to non-single name derivatives.

¹ Applied to ESG integrated funds classified as SFDR Article 8

² UN Global Compact compliance failure (without credible correction action) may apply to rule-based Climate aware funds, please refer to the offering document.

For Real Estate & Private Markets (REPM), the exclusions in Section 3 apply across all funds and where relevant to an asset class (including Direct Real Estate, Direct Infrastructure Equity and Debt and Multi-managers) as provided in the table below.

Exclusions applied by REPM Multi-manager strategies depend on products' investment objectives and strategy. Accordingly, whilst REPM Multi-manager generally applies this policy, some strategies may opt out of applying certain exclusions.³

This policy does not cover tenants in real estate direct properties, tenants of underlying funds in Multi-manager real estate, users of infrastructure assets in Multi-manager infrastructure and users of portfolio companies in Multi-manager private equity. There is a risk-based framework in place to screen tenants in our direct properties operating in sensitive industries.

Exclusions under this policy are not applicable to REPM legacy investments such as those that pre-date our exclusions framework.

Real Estate & Private Markets

Exclusion criteria	Direct Real Estate ³	Direct Infrastructure Equity and Debt	Multi-managers
Standard Exclusions			
Controversial weapons: cluster munitions, anti-personnel mines, biological weapons, chemical weapons, nuclear weapons	✓	✓	✓
Depleted uranium	✓	✓	✓
Thermal coal mining / extraction		✓	✓
Oil sands-based extraction		✓	✓
Extended Exclusions: Controversial business activities			
Tobacco		✓	✓
Adult entertainment		✓	✓
Gambling		✓	✓
Conventional military weapons		✓	✓
Thermal coal-based energy production		✓	✓
Extended Exclusions: Controversial behavior / norms			
UBS AM engagement program failures, incl. climate-related engagements			
UN Global Compact compliance failure (w/o credible corrective action)		✓	✓
Controversial activities where REPM will not do business			
	✓	✓	✓
Other exclusions for REPM			
		✓	✓

³ Multi-managers is limited to assessing the direct exposure of underlying funds and not indirect exposure to exclusion areas/activities. Multi-managers is dependent on the timely and accurate disclosure of exposure to exclusion areas/activities by underlying fund managers. Exposure thresholds are calculated at the underlying fund level as a percentage of overall fund rental income for Multi-manager real estate. Thresholds are based on underlying commitments for Multi-manager infrastructure and private equity.

⁴ Some exclusions listed in the policy are not relevant to our direct real estate business by nature of investments into residential and commercial properties.

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Exclusion areas

Controversial weapons

UBS-AM does not invest in companies involved in or engage in transactions related to: cluster munitions, anti-personnel mines or chemical and biological weapons, nor does it invest in companies or engage in transactions in breach of the Treaty on the Non-Proliferation of Nuclear Weapons. UBS-AM considers a company to be involved in controversial weapons if the company is involved in development, production, storage, maintenance or transport of controversial weapons, or is a majority shareholder (>50% ownership stake) of such a company.

Controversial weapons are regulated by the following international treaties and conventions:

- **Cluster munitions:** The Convention on Cluster Munitions (2008) which prohibits the use, stockpiling, production and transfer of cluster munitions.
- **Anti-personnel mines:** The Ottawa Treaty (1999) which prohibits the use, stockpiling, production and transfer of anti-personnel mines.
- **Biological Weapons:** Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons.
- **Chemical weapons:** The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical weapons.
- **Nuclear Weapons:** The Treaty on the Non-Proliferation of Nuclear Weapons (1968) which limits the spread of nuclear weapons to the group of so-called Nuclear-Weapons States (US, Russia, UK, France and China).

An external service provider, ISS-Ethix, provides a list of excluded companies based on definitions of controversial weapons contained in the international texts cited above.

In addition, Depleted Uranium Manufacturers are excluded, i.e. companies involved or transactions in the production of depleted uranium weapons, ammunition, and armour, including companies that manufacture armour piercing, fin stabilized, discarding sabot tracing rounds; Kinetic Energy Missiles made with depleted uranium penetrators; and depleted uranium enhanced armour, including composite tank armour.

Thermal coal mining and oil sands*

Companies or transactions that generate more than 20% of their revenues from thermal coal mining (including lignite, bituminous, anthracite and steam coal) and its sale to external parties are excluded.

For actively managed fixed income and equities funds under the direct management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”, companies that generate more than 5% of their revenues from thermal coal mining (including lignite, bituminous, anthracite and steam coal) and its sale to external parties are excluded.

Companies or transactions that generate greater than 20% of their revenues from oil sands (also known as tar sands) extraction (reserves associated with extraction revenues and extraction) are excluded.

For actively managed fixed income and equities funds under the direct management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact” companies that generate more than 5% of their revenues from oil sands (also known as tar sands) extraction (reserves associated with extraction revenues and extraction) are excluded.

Thermal coal power generation*

Companies that generate greater than 20% of their revenues from thermal coal-based power generation are excluded.

For our REPM Multi-managers business, transactions that generate greater than 30% of their revenues from thermal coal-based power generation are excluded.

Controversial behaviour

Companies or investments violating the United Nations Global Compact (UNGC) principles which do not demonstrate credible corrective action as determined by UBS AM’s Stewardship Committee where applicable, are excluded (please refer to Section 2 for the scope).

*Green bonds from issuers excluded under thermal coal mining/power generation or oil sands exclusions remain eligible.

Controversial business activities

Companies involved in the cultivation and production of tobacco are excluded.

Companies or transactions that generate greater than 5% of their revenues from adult entertainment (producing, directing, or publishing adult entertainment materials) and gambling (own or operate gambling facilities) are excluded.

Companies or transactions that generate greater than 10% of their revenues from the production of conventional military weapons are also excluded.

Engagement-based exclusions

UBS-AM periodically conducts engagements with selected companies on defined ESG topics, for example Climate. UBS-AM defines specific engagement objectives per company and assesses progress over the time of dialogue with management. UBS-AM excludes companies it determines are not adequately progressing against set objectives after a pre-defined period. These exclusions are monitored and reviewed annually and published in our annual Stewardship Report.

Controversial activities where REPM will not do business

REPM does not knowingly engage in transactions associated with severe environmental or social damage through use of:

- World heritage sites as classified by UNESCO
- Wetlands: on the RAMSAR list
- Endangered species of wild flora and fauna listed in Appendix 1 of the Convention on International Trade in Endangered Species
- High conservation value forests as defined by the six categories of the Forestry Stewardship Council (FSC)
- Illegal fire: uncontrolled and/or illegal use of fire for land clearance
- Illegal logging including purchase of illegal harvested timber (logs or roundwood)
- Child labor: according to ILO-conventions 138 (minimum age) and 182 (worst forms)
- Forced labor: according to ILO-convention 29
- Indigenous peoples’ rights in accordance with IFC Performance Standard 7

Areas of concern (REPM)

REPM excludes transactions with companies whose operations include significant production, processing or trading of palm oil, soy, forestry and fish and seafood. Significant is defined as >20% revenues or capacity. Transactions related to the following areas of concern require further assessment per our internal guidelines which will determine if excluded or not. These areas of concern include coal-fired power plants, large dams, nuclear power, arctic drilling, metals and mining liquefied natural gas, ultra-deep water drilling, hydraulic fracturing, precious metals and mineral, diamonds, shipping and project finance in scope of Equator Principles. Liquefied natural gas is not excluded for our real estate and private markets multi-manager business. For specific areas of concerns see our Sustainability and Climate Risk Policy Framework <https://www.ubs.com/global/en/assetmanagement/capabilities/sustainable-investing.html>

Additional exclusions by product

Additional exclusions for specific products are outlined in the relevant product offering documentation.

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Exclusion process

UBS-AM applies investment restriction rules on a pre-trade basis in portfolio management systems to prohibit investment in companies or issuers based on the exclusion criteria.

Exclusion criteria are largely based either on a company list (Engagement-based exclusions) or data indicators from third-party data providers.

Any changes required to portfolios in scope based on this policy are implemented by the responsible Portfolio Manager(s).

Portfolios undergo regular post-trade compliance checks performed by an internal independent guideline monitoring function.

Screening for exclusions in REPM occurs at the due diligence stage and is monitored annually thereafter.



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Definitions and abbreviations

UBS-AM: a business division of UBS Group AG and its legal entities in those jurisdictions from which it operates.

Exclusions: Securities issued by investee companies determined to meet the criteria outlined in the policy which will no longer be actively purchased by UBS-AM portfolio managers.

Stewardship: the activities undertaken by UBS-AM as an investor to monitor and, where necessary, intervene on matters that may affect the long-term value of investee companies.

Actively Managed Funds: funds under the investment management of UBS-AM where the investment strategy is not tracking an underlying reference benchmark or index.

Company List: Externally and internally sourced information regarding the activities of investee companies which are used to determine appropriate exclusions as per this policy.

Third Party Data Providers: Data which is collected and/or provided by an entity which is not a UBS Group entity.

United Nations Global Compact (UNGC) Principles: Please refer to the UNGC website for the definition: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

RAMSAR: The RAMSAR Convention on Wetlands is the intergovernmental treaty that provides the framework for the conservation and side use of wetlands and their resources. It is named after the city of Ramsar in Iran, where the convention was signed in 1971. Please refer to the RAMSAR website for the definition: <https://www.ramsar.org/>

United Nations Educational, Scientific and Cultural Organization (UNESCO): UNESCO is the United Nations Educational, Scientific and Cultural Organization. It contributes to peace and security by promoting international cooperation in education, sciences, culture, communication and information. Please refer to the UNESCO website for the definition: <https://www.unesco.org/en>

International Labour Organization (ILO): ILO is a United Nations agency whose mandate is to advance social and economic justice by setting international labour standards. Please refer to the ILO website for definition: <https://www.ilo.org/global/lang--en/index.htm>

Forestry Stewardship Council (FSC): FSC is an international non-profit and multistakeholder organization established in 1993 that promotes responsible management of the world's forests via timber certification. Please refer to the FSC website for definition: <https://fsc.org/en>

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